

# **Flagstaff Community Land Trust Program**

## **Frequently Asked Questions**

### **What is Flagstaff Community Land Trust Program?**

The Flagstaff Community Land Trust is a housing program of the City of Flagstaff. It is used as a tool to help provide housing opportunities to Flagstaff residents who may not have the means to own a home. The program is designed to help first-time homebuyers by reducing the cost of housing. The long-term affordability of the unit is maintained because the homeowner accepts less equity creation and appreciation in exchange for the assistance in buying the home. The homebuyer only purchases the house and improvements, while leasing the land from the City through a 99-year renewable lease.

### **How does Community Land Trust Program Homeownership compare to other homeownership?**

Land Trust homeownership is very similar to market homeownership except that the land that Flagstaff Community Land Trust homes are on is owned by the City of Flagstaff. This does create a restricted possible sale price, requires owner occupancy, and generates other minor limitations on property use.

### **What is the same as traditional market-based homeownership?**

- Homeowner must acquire financing through credible lenders
- Homeowner accumulates equity
- Home can be inherited
- Homeowner pays all taxes, insurance & fees
- Homeowners can make alterations and improvements
- Homeowner has guaranteed long-term control of the land and improvements
- Homeowner is responsible for maintenance
- Homeowner receives virtually all benefits and responsibilities of homeownership

### **What is different from traditional market-based homeownership?**

- The City retains ownership of the land in order to preserve the long-term affordability
- A small ground lease fee is paid to the City on a monthly basis
- The amount for which the home can be sold may not be equal to its value on the open market
- Owner must live in the home as primary residence

### **Who can apply for a Community Land Trust Program Unit?**

To be eligible for this program you must:

- Be at least 18 years of age
- Be a citizen of the USA or a registered alien
- Be a resident of the Flagstaff area or have employment commitments in the community
- Meet income eligibility guidelines
- Have sufficient income to qualify for the unit without being housing cost burdened (assistance programs are allowed to defray costs)

**Maximum Income** – Households must have an annual income which does not exceed 150% of the Area Median Income (AMI) for Flagstaff, Arizona. AMI percentages are adjusted yearly according to household size. Some specific housing units will have lower income restrictions

**Minimum Income** – Household monthly income, when multiplied by the appropriate debt-to-income ratio, must be sufficient to support the housing costs for the unit in question. Households that require a cosigner to obtain a mortgage will not be considered.

- The monthly payment of the unit must not exceed 33% of the household income for that month
- Applicants must not have owned a home within the FMPO boundary during the last three years
- Households must have proof of history of fulfilling financial responsibilities, and must be able to obtain a mortgage
- Applicants must complete City of Flagstaff Land Trust Program Orientation Workshop and are encouraged to complete homebuyer education through a local provider

**What constitutes a household?**

- The total number of persons living in the home regardless of marital, familial or legal status
- Gross income from all household members shall be considered in determining compliance with income eligibility requirements.

**How does the ground lease work?**

As an owner of the unit you will have the ability to renew your lease for up to 99 years. The lease includes the following provisions:

- The use of the land is limited to residential purposes
- Unit must be occupied by the owner and serve as his/her primary residence
- Lessee must pay monthly ground lease fee
- Lessee may refinance but must prohibit liens from being filed against the land
- Lessee is responsible for all maintenance and services
- Lessee must obtain and maintain casualty and liability insurance
- City reserves the right of first refusal regarding purchase of the improvements
- Where possible a mediation and arbitration process is preferred
- Purchase of a land trust unit limits the resale of the home to eligible buyers
- Uses of the land must be in compliance with all laws
- The resale price of the improvements shall be determined through the resale formula below

**Resale Formula**

Critical to creating permanent affordability in the program are the resale provisions to be contained in the ground lease. The formula in all program ground leases is an appraisal-based formula, entitling the homeowner to 25% of the change of market value of the improvements.

Following is an example of the formula:

Initial purchase price + [(appraisal 2 – appraisal 1) x %] = resale price

Initial purchase price - \$180,000 (improvements only)

### 10 years later

Appraisal 2 (assuming 5% increase per year)	—	\$293,201 (improvements only)
Initial purchase price (Appraisal 1)		<u>\$180,000</u>
		\$113,201
<b>25% of increase</b>		<b>\$ 28,300</b>

The household receives not only \$28,300, but also has paid down the mortgage:

3% down payment	\$ 5,400
10 years of mortgage principle	\$35,033
minus 2% selling expense	(\$ 4,166)
<b>Net sales proceeds</b>	<b>\$64,567</b>

### What kind of financing can be used for a Community Land Trust Program home?

Homebuyers will be required to acquire conventional financing for the purchase of Community Land Trust Program units. In general, the CLTP follows Fannie Mae guidelines on acceptable loan products. Exceptions to the Fannie Mae guidelines include prohibiting loans with:

- Adjustable interest rates higher than 2 points above the Prime Rate at time of adjustment
- Initial interest only payments followed by a balloon payment
- Negative amortization
- Greater than 100% Loan to Value Ratio
- The household must be able to afford the mortgage without a co-signer

### Are there designated lenders?

The City will maintain a list of cooperative lenders who have an understanding of the program and are prepared to provide loans on the improvements. Homebuyers may use any lender they choose, but a lender not included on the list will need to communicate with City staff to receive orientation on program dynamics and lending guidelines. To be placed on the list of cooperative lenders please contact: Justyna Costa, Home Ownership Program Manager at 928-213-2746 or [jcosta@flagstaffaz.gov](mailto:jcosta@flagstaffaz.gov).

### Can I use other workforce assistance programs to buy a Community Land Trust Program Home?

The Flagstaff CLTP understands that even after removing the cost of the land, it is often difficult for people in lower paying jobs to afford a home. Therefore, the CLTP encourages layering of other available assistance into the purchase. These may include, but are not limited to:

- Down payment and closing cost assistance
- Individual Development Accounts
- WISH funding

### For more information on a land trust unit, please contact:

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